

13 September 1983

MEMORANDUM FOR: Director of Personnel

VIA: Inspector General *GI*FROM:
Chief, Audit StaffSUBJECT: Report of Audit, Government Employees Health
Association, Inc., 1 January 1982 - 31 December 1982

1. Subject report is attached. Please advise me of the action taken on the recommendation contained in the report.

2. We appreciate the cooperation and assistance provided by your staff during the audit.



Attachment:
As stated

Distribution:

- ~~Orig.~~ - D/Pers
- 1 - C/Board of Directors
- 1 - D/OF
- 1 - O/Compt/BMG

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REPORT OF AUDIT
Government Employees Health Association, Inc.

For the Period
1 January 1982 - 31 December 1982

SUMMARY

1. Controls and procedures governing the custody and use of Government Employees Health Association, Inc. (GEHA) assets were generally effective and in accordance with applicable requirements. This report contains a recommendation concerning the reconciliation of certain general ledger accounts with their subsidiaries. Minor administrative matters were discussed with responsible officials and resolved during the audit.

SCOPE AND OPINION

2. The audit included an examination of the GEHA statement of financial position as of 31 December 1982 and 1981 and the related statement of changes in reserve fund balances for 1982. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and other auditing procedures, including a review of claim settlement procedures, as we considered necessary under the circumstances.

3. In our opinion, the accompanying financial statements, Exhibits A and B, present fairly the financial position of GEHA at 31 December 1982 and 1981 and the results of its operations for the year ended 31 December 1982, in conformity with generally accepted accounting principles applied on a consistent basis.

BACKGROUND

4. GEHA is a tax-exempt organization incorporated in the District of Columbia to administer employee insurance programs in accordance with Agency operational and security requirements. An elected Board of Directors prescribes GEHA operating policies. The daily business is conducted by the Insurance Branch of the Benefits and Services Division in the Office of Personnel. GEHA reimburses the Agency for the services of [redacted] employees in the Insurance Branch.

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5. GEHA maintains [] insurance accounts for active and retired employees. The following plans are in effect:

PLANS

ACCOUNTS

Life Insurance:

United Benefit Life Insurance Company
Active
Retired

Worldwide Assurance for Employees
of Public Agencies

Health Insurance:

Association Benefit Plan
Active
Retired

Contract Hospitalization

Specified Diseases

Disability Insurance:

Income Replacement

Accidental Death and Dismemberment
Insurance:

Flight and Accident

Travel Insurance:

Air Flight

Military Air Flight

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6. The Association Benefit Plan received premiums of \$20.8 million, paid out benefits of \$21.9 million, and incurred net operating expenses of \$1.7 million for a net underwriting loss of \$2.8 million. This loss was offset from reserves held by Mutual of Omaha and the Office of Personnel Management.

DETAILED COMMENTS

Reconciliation of General Ledger Accounts

7. The general ledger accounts recording advance premiums for certain employees have not been reconciled with supporting

records. As a result, the balance of Account 217 which records premiums from Foreign Broadcast Information Service foreign national employees is \$1,300 less than the total of supporting subsidiary records. And the balance of Account 218 which records premiums from contract employees is \$200 more than supporting subsidiary records. We were unable to resolve these differences. Periodic reconciliation of these accounts would help to identify such differences and aid in their timely resolution.

Recommendation:

- a. Adjust the general ledger account balances to agree with supporting subsidiary records.
- b. Reconcile the accounts with subsidiary records quarterly.

Exhibit A

Government Employees Health Association, Inc.
Statement of Financial Position
31 December 1982 and 1981

	<u>ASSETS</u>	<u>1982</u>	<u>1981</u>
Cash	\$	400,712	\$ 241,902
Investments (Note 1)		5,503,390	4,782,454
Claims Receivable		37,761	244,836
Contingent Assets:			
Funds Withheld by Underwriter for Specified Policyholders		139,666	139,666
Less: Reserves		(139,666)	(139,666)
Equipment (Net of Depreciation)		<u>1,156</u>	<u>1,734</u>
Total Assets		<u>\$5,943,019</u>	<u>\$5,270,926</u>
 <u>LIABILITIES AND RESERVES</u> 			
Accounts Payable	\$	32,128	\$ 27,389
Prepaid Premiums		137,009	181,205
Accrued Salaries		33,034	49,951
Accrued Dependent Premiums		<u>17,388</u>	<u>17,941</u>
Total Liabilities		219,559	276,486
Reserves (Exhibit B)		<u>5,723,460</u>	<u>4,994,440</u>
Total Liabilities and Reserves		<u>\$5,943,019</u>	<u>\$5,270,926</u>

Note 1: Investments are recorded at cost; market value at 31 December 1982 was \$5,860,000 and at 31 December 1981 was \$4,373,300.

Government Employees Health Association, Inc.
Statement of Changes in Reserve Fund Balances
For the Year Ended 31 December 1982

	Total	UBLIC Investment in Common Stock	UBLIC General	Association Benefit Plan	Air Flight Plan	Contract Hospital- ization	General Fund
Balance, 1 January 1982	\$4,994,440	\$560,427	\$3,993,893	\$279,272	\$28,465	\$74,333	\$58,050
Increases:							
Premiums Withheld from or Returned by Underwriter	626,249		52,763	559,592		13,894	
Investment Income	623,803	122,639	481,719		3,458	8,971	7,016
Gain on Sale of Investments	153,394	41,940	106,841		767	1,990	1,856
Miscellaneous	810						810
Total Increases	1,404,256	164,579	641,323	559,592	4,225	24,855	9,682
Decreases:							
Salaries	565,806		19,644	528,674	3,498	13,990	
Premiums for UBLIC Dependent Coverage	42,218		42,218		251	651	509
Investment Fees and Expenses	58,245	17,479	39,355				
Miscellaneous	8,967			6,816			2,151
Total Decreases	675,236	17,479	101,217	535,490	3,749	14,641	2,660
Balance, 31 December 1982	\$5,723,460	\$707,527	\$4,533,999	\$303,374	\$28,941	\$84,547	\$65,072

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REPORT OF AUDIT
Government Employees Health Association, Inc.

For the Period
1 January 1982 - 31 December 1982

SUMMARY

1. The Government Employees Health Association, Inc. (GEHA) continues to be administered in an efficient manner. Administrative controls, procedures and records were generally effective and in accordance with applicable requirements. Prior audit recommendations have been satisfactorily resolved. This report contains recommendations concerning the reconciliation of certain general ledger accounts and automation of the accounting records. Minor administrative matters were resolved during the audit.

SCOPE AND OPINION

2. We have examined the GEHA statement of financial position as of 31 December 1982 and 1981 and the related statement of changes in reserve fund balances for 1982. The examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and other auditing procedures, including a review of claim settlement procedures by GEHA, as we considered necessary under the circumstances.

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3. In our opinion, the above mentioned financial statements, Exhibits A, and B, present fairly the financial position of GEHA at 31 December 1982 and the results of its operations for the year then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

BACKGROUND

4. GEHA is a tax-exempt organization incorporated in the District of Columbia to administer employee insurance programs in accordance with Agency operational and security requirements. An elected Board of Directors prescribes GEHA operating policies. The daily business is conducted by the Insurance Branch of the Benefits and Services Division in the Office of Personnel. GEHA reimburses the Agency for the services of employees in the Insurance Branch.

5. GEHA maintains 25,220 insurance accounts for active and retired employees. The following plans are in effect:

PLANS

ACCOUNTS

Life Insurance:

United Benefit Life Insurance Company

Active

Retired

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of Public Agencies

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Insurance:

Flight and Accident

Travel Insurance:

Air Flight

x Military Air Flight

6. The Association Benefit Plan received premiums of \$20.8 million, paid out benefits of \$21.9 million, and incurred net operating expenses of \$1.7 million for a net underwriting loss of \$2.8 million. This loss was offset from reserves held by Mutual of Omaha and the Office of Personnel Management.

DETAILED COMMENTS

Contract Employee Hospitalization Premium Control

7. The advance premium general ledger accounts which record contract employee hospitalization premiums have not been reconciled with the subsidin^{ARY} records. Account 217 records premiums received from Foreign Broadcast Information Service (FBIS) foreign national employees who send in payments since they cannot have payroll deductions for hospitalizations. GEHA maintains a hand posted card for each individual where they

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record the premiums received. The premiums received but not forwarded to the underwriter, as shown on each card, should equal the general ledger account balance when all the cards are totaled; however, the total of the cards exceeded the book balance by about \$1,300. We were unable to identify this difference but determined that at least part of it occurred in prior years. We suggest that the books be adjusted to agree with the subsidiary card totals. In the future, the cards should be reconciled with the general ledger account at least quarterly.

8. Account 218 records premiums received from contract employees by payroll deduction. We were unable to identify \$200 of the general ledger account balance. If this cannot be identified, it should also be written off. This account should be reconciled quarterly in the future.

Recommendation #1: Adjust the advance premium contract health general ledger accounts to agree with identified premium balances.

Recommendation #2: Reconcile these accounts on a quarterly basis.

Records Automation

9. The reconciliation of contract employee hospitalization premium accounts has been a problem area for GEHA for several years. The automation of the GEHA accounting records could resolve this problem while reducing the workload of the

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accounting staff. Subsidiary records for the contract employees could be maintained by the computer and updated from the cash receipts and disbursements entries. In 1982, GEHA issued 30,100 checks. Proper programming could enable the accountant to obtain various reconciliations such as
x outstanding checks or claims receivable from the computer ^{RATHER} ~~rather~~ than prepare tedious adding machine tapes as is now done.

Recommendation #3: Consider automation of the accounting records.

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31 December 1982 and 1981

ASSETS

	<u>1982</u>	<u>1981</u>
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